

Regions Investment Management

State of Alabama Treasurer's Office

Prepaid Affordable College Tuition (PACT) Program

As of March 31, 2021

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Bond Portfolio Review

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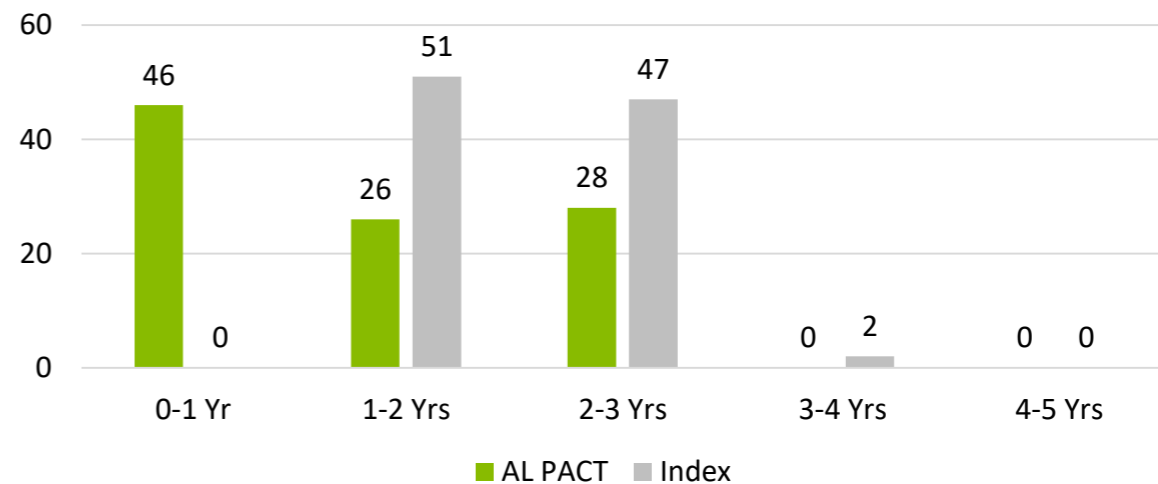
State of Alabama Treasurer's Office – PACT Program

Fixed Income Portfolio Characteristics as of 03.31.2021

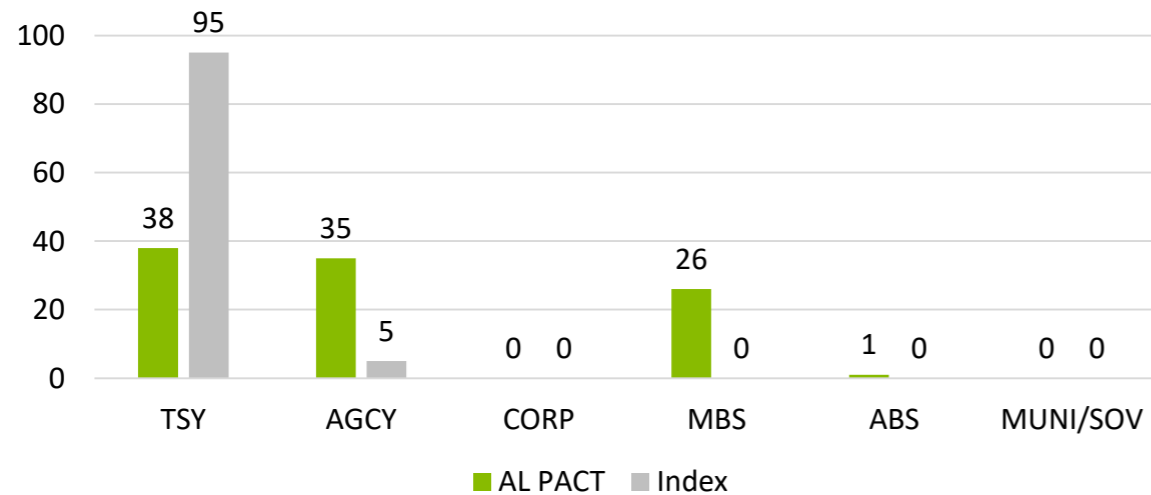
Portfolio Characteristics

	AL PACT	Index
Yield to Maturity	0.20%	0.20%
Average Coupon	0.90%	1.32%
Effective Duration	0.78 years	1.96 years
Average Life	0.91 years	2.00 years
Average Quality	Aaa	Aaa

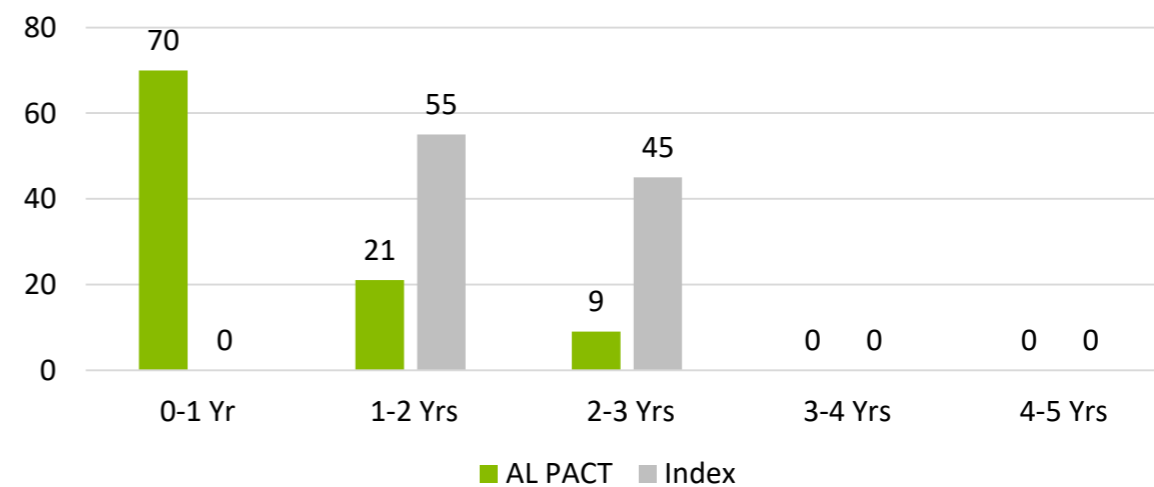
Maturity vs. Index



Sector vs. Index



Duration vs. Index



*** Market Value for Fixed Income Portfolio: \$16.6 million ***

Index: Bloomberg Barclays 1-3 Year US Govt Index

Source: BondEdge & Bloomberg Barclays Capital; Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith."

State of Alabama Treasurer's Office – PACT Program

Performance as of 03.31.2021

	Qtr	YTD	1-Yr	3 Years *	5 Years *	Inception *
Consolidated Portfolio	0.00%	0.00%	0.57%	2.59%	1.89%	2.00%

Money Market Fund	0.01%	0.01%	0.05%	1.35%	1.15%	1.11%
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Fixed Income Portfolio	-0.05%	-0.05%	0.79%	2.93%	2.09%	2.19%
1-3 YR Govt Only	-0.05%	-0.05%	0.36%	2.80%	1.73%	1.82%
<i>Excess Return</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.43%</i>	<i>0.13%</i>	<i>0.36%</i>	<i>0.37%</i>

*** Market Values: Consolidated: \$86.3 mm / Money Market: \$69.6 mm / Fixed Income: \$16.6 mm***

Returns are net of fees. Past performance does not guarantee future returns. *Figures for periods greater than one year are annualized; Inception Date: 12/31/2015

Index: Bloomberg Barclays 1-3 Year US Govt Index

Source: SEI for client returns & Bloomberg Barclays Capital for index returns; Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith."

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Allocation Detail as of 03.31.2021

INVESTMENT RETURN SUMMARY - QUARTER ENDING MARCH 31, 2021

Name	Current Quarter Total Return	Prior Quarter Market Value	Net Cashflow	Investment Return	Current Quarter Market Value *
Fixed Income	-0.05%	\$80,178,573	(\$63,564,423)	1,736.63	\$16,615,887
Money Market Mutual Fund	0.01%	16,063,004	53,564,423	931	\$69,628,358
Demand Deposit	0.00%	979,883	125,298	0	\$1,105,180
Total Portfolio	0.00%	\$97,221,460	(\$9,874,702)	\$2,668	\$87,349,426

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$3,407,474.81 that was in the Treasury Account on March 31, 2021.

MANAGER ALLOCATION SUMMARY - QUARTER ENDING MARCH 31, 2021

Prior Quarter Market Value	%	Fund Name	Style	Adj. for Portion of Fixed Income Account Instructed to Hold in Money Market	Current Quarter Market Value *	%
\$0	0%	Residual	(CASH)	0	0	0%
\$80,178,573	82%	Fixed Income	(STFX)	0	16,615,887	19%
\$16,063,004	17%	Money Market Mutual Fund	(CASH)	0	69,628,358	80%
\$979,883	1%	Demand Deposit	(CASH)	0	1,105,180	1%
\$97,221,460	100%		(TOTL)	\$0	87,349,426	100%

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$3,407,474.81 that was in the Treasury Account on March 31, 2021.

Market Updates

- Market Returns
- Economic Update
- Fixed Income Markets

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Market Returns

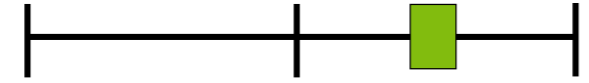
	YTD As of 3/31/21	Trailing 3 Months 3/31/21	2020	2019	2018	2017	2016	2015
Equities								
S&P 500 Index (Large Cap Stocks)	6.17%	6.17%	18.40%	31.49%	-4.38%	21.83%	11.96%	1.38%
<i>S&P 500 (Large Cap Growth)</i>	2.12%	2.12%	33.47%	31.13%	-0.01%	27.44%	6.89%	5.52%
<i>S&P 500 (Large Cap Value)</i>	10.77%	10.77%	1.36%	31.93%	-8.95%	15.36%	17.40%	-3.13%
Russell 2500 Index (Small to Mid Cap Stocks)	10.93%	10.93%	19.99%	27.77%	-10.00%	16.81%	17.59%	-2.90%
<i>Russell Mid Cap TR USD</i>	8.14%	8.14%	17.10%	30.54%	-9.06%	18.52%	13.80%	-2.44%
<i>Russell 2000 Index (Small Cap Stocks)</i>	12.70%	12.70%	19.96%	25.52%	-11.01%	14.65%	21.31%	-4.41%
MSCI ACWI Ex-US (Foreign Stocks, Net Return)	3.49%	3.49%	10.65%	21.51%	-14.20%	27.19%	4.50%	-5.66%
<i>MSCI EAFE Index (Foreign Stocks, Net Return)</i>	3.48%	3.48%	7.82%	22.01%	-13.79%	25.03%	1.00%	-0.81%
<i>MSCI EM (Foreign Stocks, Net Return)</i>	2.29%	2.29%	18.31%	18.42%	-14.58%	37.28%	11.19%	-14.92%
Fixed Income								
Barclays US Agg Bond TR USD	-3.37%	-3.37%	7.51%	8.72%	0.01%	3.54%	2.65%	0.55%
S&P National AMT-Free Muni Bond	-0.41%	-0.41%	4.95%	7.42%	1.01%	5.09%	0.36%	3.26%
Barclays Global Agg Ex USD TR	-5.29%	-5.29%	10.11%	5.09%	-2.15%	10.51%	1.49%	-6.02%
Barclays High Yield Corp TR USD	0.85%	0.85%	7.11%	14.32%	-2.08%	7.50%	17.13%	-4.47%
Barclays US Treasury US TIPS	-1.47%	-1.47%	10.99%	8.43%	-1.26%	3.01%	4.68%	-1.44%
FTSE Treasury Bill 3 Month (Money Market)	0.02%	0.02%	0.58%	2.25%	1.86%	0.86%	0.33%	0.05%
Diversified Strategies								
HFRX Global Hedge Index	1.29%	1.29%	6.81%	8.62%	-6.72%	5.98%	2.50%	-3.64%

Source: Morningstar

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Economy

Overview & Outlook

Economy		<p><u>Risks:</u></p> <ul style="list-style-type: none"> While progress is being made on the vaccination front, the possibility of renewed spikes in COVID-19 cases cannot be dismissed, particularly with new strains of the virus having turned up in the U.S. As such, the near-term risks to the outlook remain weighted to the downside. 	<p><u>Opportunities:</u></p> <ul style="list-style-type: none"> The prospect of an effective vaccine being widely available for distribution around mid-2021 offers hope of meaningfully stronger growth in late-2021 and early-2022. What remain highly accommodative financial conditions could provide a powerful tailwind for growth over that time frame.
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Growth And Inflation Expectations Ramping Up

Faster Inflation Is Coming, But Is It Staying?

- The data on personal income, spending, and saving show total consumer spending rose by 2.4 percent in January. That gain, however, was no match for the 11.4 percent increase in disposable (or, after-tax) personal income. The spike in personal income largely reflects the January distribution of the second round of Economic Impact Payments of up to \$600 per eligible recipient. With income growth easily outpacing spending growth, the personal saving rate leapt to 20.5 percent in January from 13.4 percent in December.¹
- An already elevated personal saving rate will be pushed even higher by the third round of Economic Impact Payments of up to \$1,400 per eligible recipient and dependent. The substantial pool of personal saving sets the stage for a powerful burst of consumer spending later in 2021 once a much higher share of the population has been vaccinated against the COVID-19 virus and the economy is more fully reopened.
- There are reasons to expect inflation to pick up in the months ahead. Base effects will lead to significantly higher measured inflation in March and April, as these are the months in which prices tumbled last year when the economy shut down. These base effects, however, will subside in subsequent months and, as such, the FOMC will look past them. Services prices will normalize as the economy is more fully reopened and consumer spending on services begins to recover, but this too will have only a transitory effect on inflation. What remains to be seen is whether, or to what extent, factors such as rising energy prices, higher commodity prices, supply chain and logistics issues, and a weaker U.S. dollar will lead to more pronounced, and lasting, increases in inflation.

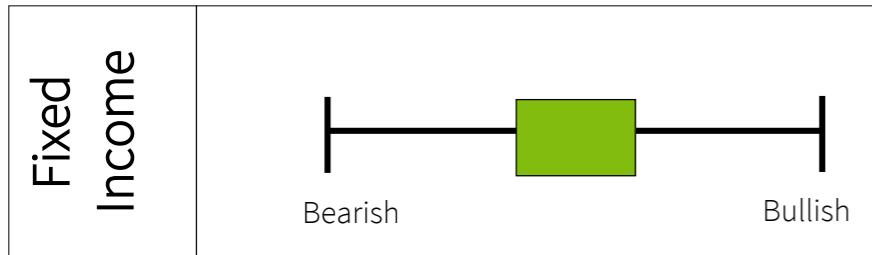
Still Far To Go, But A Hint Of What's To Come

- Total nonfarm employment rose by 379,000 jobs in February, with private sector payrolls up by 466,000 jobs and public sector payrolls down by 86,000 jobs. Most of the private sector job growth was accounted for leisure and hospitality services, which added 355,000 jobs. Outside of this broad industry group, hiring across the private sector was more broadly based in February, but in most industry groups the gains were fairly small.²
- The unemployment rate fell to 6.2 percent in February, but the labor force was basically flat, and there are over 4.2 million fewer people in the labor force than was the case prior to the pandemic.² This is a reminder that the unemployment rate is an incomplete gauge of the degree of labor market slack, a point that Fed Chair Powell and other FOMC members routinely stress.
- While the tendency may be to dismiss February's job growth as nothing more than the addition of low-paying services jobs, we have another take. As of February, the level of nonfarm employment remains 9.475 million jobs below the pre-pandemic peak, with 3.451 million jobs of that deficit accounted for by leisure and hospitality services. The jump in payrolls in this sector in February highlights how critical it is for there to be broader distributions of the vaccines to get the economy more fully reopened, while offering a hopeful sign of how rapidly the economy can rebound when we arrive at that point.
- While the FOMC is no doubt encouraged by signs of a firming economy and is clearly aware of rising inflation expectations, their overriding concern at present is paring down the still-significant degree of labor market slack. As such, this month's FOMC meeting will bring no changes in either policy or forward guidance.

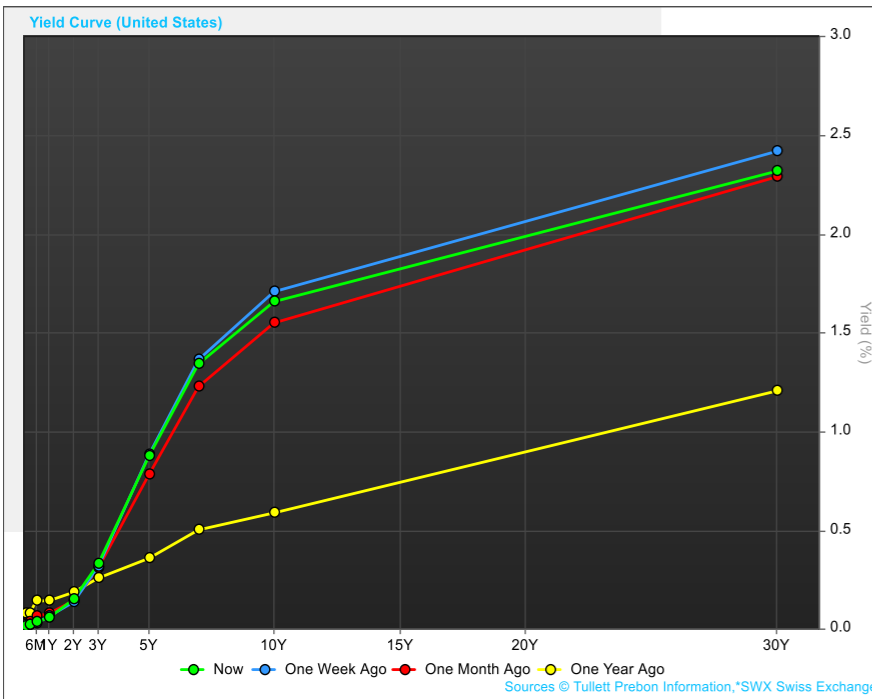
Source: 1) Bureau of Economic Analysis (BEA); 2) Institute for Supply Management (ISM); 3) Bureau of Labor Statistics (BLS)
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Fixed Income

Overview & Outlook



Yields as of March 31, 2021	
US Treasuries	
3-month	0.02%
2-year	0.14%
5-year	0.89%
10-year	1.72%
30-year	2.42%



Summary View: Neutral

- Yields on long-term Treasuries have risen sharply as 2021 has begun, leading to negative returns for core-investment grade bonds year-to-date, and we expect a challenging backdrop to remain in place throughout much of this year. Upward pressure on the long end of the yield should persist as economic growth and inflation expectations are ratcheted higher, leading us to recommend a duration profile below that of the Bloomberg Barclays Aggregate Bond index to reduce interest rate sensitivity.
- Rising inflation expectations in the Eurozone could lead German bund yields higher, pulling U.S. yields along.
- The Federal Open Market Committee (FOMC) isn't thinking about raising the Fed funds rate and continues to purchase Treasuries and mortgage-backed securities at a \$120B per month clip, leading to a rapid expansion of its balance sheet. However, we expect the Fed to face pressure to curtail bond purchases later this year as the U.S. and global economy recovers.
- We believe there remains relative value in select asset-backed securities, as well as dollar-denominated emerging market debt, while we are less positive on mortgage-backed securities.
- While we remain constructive on emerging markets both from a fixed income and equity perspective, EM bonds tend to be longer duration assets, and as such carry significant sensitivity to U.S. Treasury yields and must be right-sized due to heightened volatility and larger potential drawdowns when outflows occur.

Risks: Facing the prospect of falling short of required hurdle rates or expected inflation, investors increase allocations to riskier segments of the fixed income marketplace, and/or shift allocations out of bonds and into 'stocks that look like bonds,' taking on heightened volatility and larger potential drawdowns.

	YTD 3/31/2021	2020	2019	2018	2017	2016
Total Return						
Barclays US Agg Bond TR USD	-3.37%	7.51%	8.72%	0.01%	3.54%	2.65%
Barclays High Yield Corp TR USD	0.85%	7.11%	14.32%	-2.08%	7.50%	17.13%
Barclays Global Agg Ex USD TR	-5.29%	10.11%	5.09%	-2.15%	10.51%	1.49%
Barclays US Treasury US TIPS	-1.47%	10.99%	8.43%	-1.26%	3.01%	4.68%
FTSE Treasury Bill 3 Month (Money Market)	0.02%	0.58%	2.25%	1.86%	0.86%	0.33%

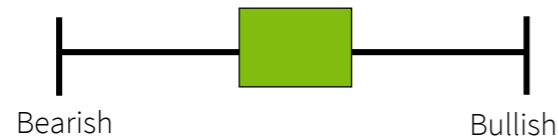
Source: Prepared by Regions Asset Management using data from Morningstar and FactSet.

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Equities

Overview & Outlook

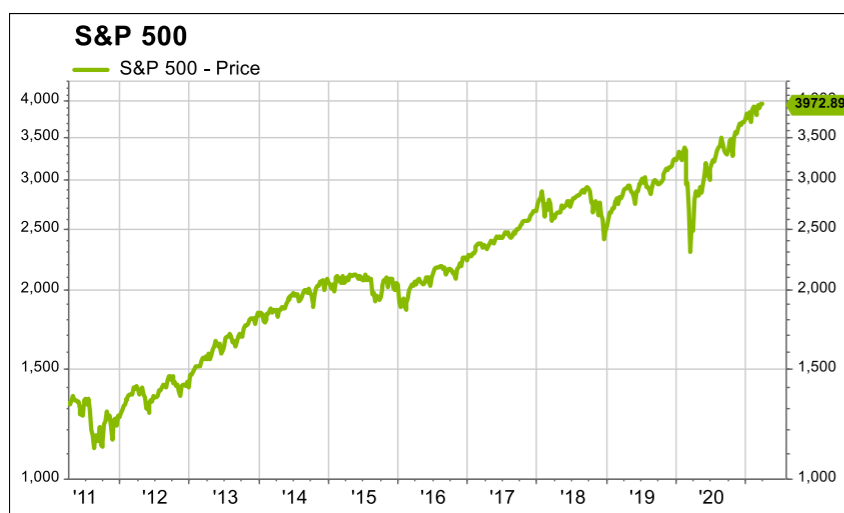
Equities



S&P 500 Statistics as of March 31, 2020

Fundamentals

2020 Earnings	\$137
2021 Earnings Estimates	\$176
Forward P/E	23.1x
Dividend Yield	1.40%
Technicals	
% of Stocks Above 200ma	94%
VIX (CBOE Volatility Index)	19.40



Summary View: Neutral

- Domestic equity valuations remain stretched, but with the Fed funds rates expected to remain at the zero-bound for years to come, valuations will likely remain supported above historical levels.
- We remain overweight U.S. large-cap stocks due to diversified supply chains, pricing power, fortress balance sheets.
- Small- and mid-cap stocks could be relative winners in '21 as tight credit spreads remain supportive, but higher interest rates and energy prices could provide headwinds along the way. Small-caps have historically performed well coming out of recessions and investors have flooded in to small-caps as a play on economic growth in the coming year. Small-caps were overbought into mid-March before paring gains, but after 'beta,' or market exposure to small-caps proved beneficial post-election, we expect security selection to be a bigger driver of returns going forward.
- International stocks remain attractively valued and unprecedented fiscal stimulus out of the Eurozone leads us to a more constructive stance on Europe, specifically. However, at present, we remain comfortable with an underweight allocation as economic shutdowns to curtail the spread of COVID-19 will hinder the pace of economic recovery in '21.
- A stronger U.S. dollar will act as a headwind for developing economies, but we remain comfortable with a neutral allocation to emerging market equities relative to our strategic target. The recent rally in the greenback and pullback in Chinese equities, specifically, highlight how volatile and steep drawdowns in emerging markets can be.

Risks: Sweeping changes at the industry level or to tax rates occurs; Interest rates continue to rise sharply as economic growth and inflation expectations surprise to the upside, providing an alternative for investors forced into stocks due to low rates; investor 'euphoria' leads to offside bullish positioning leading to a potential reversal.

	YTD 3/31/2021	2020	2019	2018	2017	2016
Total Return						
S&P 500 Index (Large Cap)	6.17%	18.40%	31.49%	-4.38%	21.83%	11.96%
S&P 500 (Large Cap Growth)	2.12%	33.47%	31.13%	-0.01%	27.44%	6.89%
S&P 500 (Large Cap Value)	10.77%	1.36%	31.93%	-8.95%	15.36%	17.40%
Russell 2500 Index (Small to Mid Cap)	10.93%	19.99%	27.77%	-10.00%	16.81%	17.59%
Russell Mid Cap Index (Mid Cap)	8.14%	17.1%	30.54%	-9.06%	18.52%	13.80%
Russell 2000 Index (Small Cap)	12.70%	19.96%	25.52%	-11.01%	14.65%	21.31%
MSCI World Ex-US (Foreign Stocks, Net Return)	3.49%	10.65%	21.51%	-14.09%	24.21%	2.75%
MSCI EAFE Index (Foreign Stocks, Net Return)	3.48%	7.82%	22.01%	-13.79%	25.03%	1.00%
MSCI EM (Foreign Stocks, Net Return)	2.29%	18.31%	18.42%	-14.58%	37.28%	11.19%

Source: Prepared by Regions Asset Management using data from Morningstar and FactSet.

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